

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Swampscott
Contributory Retirement System
For the Four Year Period
January 1, 1998 - December 31, 2001
PERAC 01: 08-087-24**

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November 21, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Swampscott** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1998** to December 31, **2001**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Swampscott Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

1. Operational: The Board's office is located on the second level of a three level structure. There is no handicapped access to the office space.

Recommendation: The Board must comply with accessibility standards set forth in the Americans with Disabilities Act of 1996. The Board has been negotiating with the landlord to install a chair lift for over a year. This needs to be resolved quickly.

Board Response: The System's offices are located on the second level of a three-level building. The building is more than fifty years old, and it is a mixed-use facility that includes apartments and several commercial tenants, including SCRS. The lack of commercial space in the Town of Swampscott made locating appropriate office space quite difficult. Currently, there is no handicap access to the second level. However, the System is working with the landlord and other tenants in exploring the possibility of installing an approved chair lift. In the meantime, staff remains available to travel off site to meet with members and retirees that have physical disabilities.

2. Operational: The Board's office shares a common entrance with a small private corporation. Internal offices and storage areas can be locked. The Board's conference room is in the common area, and records are stored in the common area.

Recommendation: The landlord had agreed to correct this by adding a door for the other tenant, but it has been over a year with no action. The Board has the duty to take all reasonable precautions to protect the records from fire, theft, flood, natural disaster, unauthorized removal or other security hazard as stated in PERAC regulation 840 CMR 6.04.

Board Response: The interior door to the adjacent office has been relocated by the landlord, thus no one is able to access the System's offices without authorization. In addition, all Retiree/Member records have been relocated to an internal storage area and the System routinely backs up all files and sends copies of same to Town Hall for safekeeping.

3. Cash Reconciliation: The Town Treasurer is not performing a reconciliation of the retirement system's cash accounts on a monthly basis as required as custodian of the system's funds.

Recommendation: The Town Treasurer shall be the custodian of the retirement systems funds according to G.L. c 32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Board must ensure that the Treasurer fulfill his/her obligation as custodian of the fund.

Board Response: The new Town Treasurer has agreed to reconcile the books, in accordance with her statutory duties, as outlined in the "Treasurer's Responsibilities to Retirement System" document submitted to the Town at the Board's request.

Swampscott Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

4. Annual Statement: Based upon inspection of the Annual Statements filed by the Board for the four year audit period, it was determined that certain line item amounts contained in the 2001 Annual Statement did not match the detailed supporting schedules. Differences were found in investment income, and in realized and unrealized gains and losses.

Recommendation: As a sole source of information to third parties, the Annual Statement and supporting schedules must be able to stand on their own without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian provided schedules should be corrected, if needed, and reconciled to the General Ledger prior to submission of the Annual Statement.

Board Response: The System has adopted the Commission's recommendations regarding the establishment of a review process, in conjunction with the System's accounting consultant, to ensure that all entries on the Annual Statement agree with the detailed supporting schedules.

5. Record Retention: Several audit steps require examination of cancelled checks. Cancelled checks for 1998 and 1999 were not available for review by the auditor.

Recommendation: The Board must safeguard and retain records in accordance with the Secretary of State's Record Disposal Schedule (DS-17-90). Cancelled checks should be retained for seven years.

Board Response: The cancelled checks for the period 1998-99 were discovered at Town Hall and have been relocated to the System's offices.

6. Appropriations: The Swampscott Housing Authority did not pay their Fiscal Year 2001 appropriation. This same unit is paying on a schedule different from the agreed upon schedule used to calculate the appropriation.

Recommendation: The Swampscott Housing Authority must pay the FY 2001 appropriation. The Board must send out invoices to the units prior to the due date. The schedule used in the appropriation calculation is one payment at the start of the Fiscal Year, July 1st.

Board Response: The Swampscott Housing Authority has been advised that they will now be required to pay the FY01 Appropriation, and that, in the future, appropriation payments must be submitted to the System at the beginning of the fiscal year, rather than by the end of the calendar year.

Swampscott Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

7. Retiree Payments: The auditor sampled retirees to determine if the superannuation calculations are correct and that the payroll matches the monthly allowance. Three retirees sampled are receiving monthly checks in excess of their allowance. The superannuation calculation was done correctly, but the wrong amounts were entered into the payroll system for the annuity and pension portions of the allowance.

Recommendation: The payroll register must be corrected immediately to reflect the correct retirement allowance. The Board must take steps to recapture the over paid amounts of approximately \$6,700.00. A system should be established to ensure that inputs to the payroll system are accurate.

Board Response: Of the three retirees who were identified as having received excess retirement allowances, the allowances of two have been adjusted and the process of recapturing the excess earnings has been undertaken by reducing the retirees' allowances. These two retirees represent approximately \$6,500 of the \$6,700 which is owed to the System. The third retiree was seriously ill at the time of the audit, and the System's staff (not wishing to cause any unwarranted stress) is in the process of ascertaining the state of this retiree's health prior to advising this individual of the overpayment. In addition, all new retirements are independently reviewed by the Administrative Assistant prior to the issuance of the Retiree's first check.

8. Members' Deduction Rates: The auditor sampled over 10% of members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The sample yielded a 32% error rate. All of the errors occurred with the additional 2% deductions.

Recommendation: The deduction errors found must be corrected by the Board and payroll department. The Board should routinely monitor deductions to ensure compliance with G.L. c 32, § 22 (1) (b) and (1) (b1/2), and PERAC MEMO # 43/1999, defining 2% additional deductions.

Board Response: The System has advised the Town Treasurer of the 2% discrepancy, and the Town's payroll department has taken affirmative measures to ensure that all Members who should have been paying the additional 2% are now doing so, and that all new hires who are required to pay the additional 2% are having the correct deductions taken out at the time of hire.

9. Annual Affidavit: The Board did not send out retiree affidavits for the audit period nor through the time of the audit.

Recommendation: Pursuant to PERAC regulation 840 CMR 15.01, the Board must ensure that all members complete and return signed affidavits annually.

Swampscott Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

Board Response: The System immediately complied with the relevant regulations and submitted Affidavit requests to all of the System's retirees. As of October 1, notarized responses were received from all but two of the System's retirees. These individuals have been notified by certified mail that their allowances will be suspended as of the October payroll in the event that no response is received by October 27th.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.

Swampscott Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2001	2000	1999	1998
Cash	\$1,006,493	(\$2,381,546)	\$335,762	\$374,617
Short Term Investments	858,527	3,456,391	903,848	607,426
Fixed Income Securities (at book value)	11,780,001	10,404,197	8,857,023	5,973,620
Equities	11,392,816	12,450,289	15,422,946	14,469,043
Pooled Short Term Funds				
Pooled Domestic Equity Funds				
Pooled International Equity Funds	1,399,303	1,697,000	1,951,800	1,491,291
Pooled Global Equity Funds				
Pooled Domestic Fixed Income Funds				
Pooled International Fixed Income Funds				
Pooled Global Fixed Income Funds				
Pooled Alternative Investment Funds				
Pooled Real Estate Funds	1,400,000	0	0	0
Pooled Domestic Balanced Funds				
Pooled International Balanced Funds				
PRIT Cash Fund				
PRIT Core Fund				
Interest Due and Accrued	120,887	148,719	130,386	50,172
Accounts Receivable	748,684	831,960	1,035,594	868,587
Accounts Payable	(3,146,783)	(39,492)	(1,486,794)	(228,344)
TOTAL	<u>\$25,559,927</u>	<u>\$26,567,518</u>	<u>\$27,150,564</u>	<u>\$23,606,411</u>
FUND BALANCES				
Annuity Savings Fund	\$6,705,486	\$6,647,027	\$6,584,815	\$5,990,916
Annuity Reserve Fund	2,916,476	2,602,231	2,274,468	2,342,035
Pension Fund	2,782,790	3,333,160	3,548,395	3,748,773
Military Service Fund	322	322	322	315
Expense Fund	0	0	0	0
Pension Reserve Fund	13,154,854	13,984,778	14,742,565	11,524,373
TOTAL	<u>\$25,559,927</u>	<u>\$26,567,518</u>	<u>\$27,150,564</u>	<u>\$23,606,411</u>

Swampscott Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1997)	\$5,516,093	\$2,361,319	\$4,157,041	\$307	\$0	\$7,499,959	\$19,534,720
Receipts	770,027	69,183	1,922,672	7	174,268	4,024,414	6,960,571
Interfund Transfers	(234,897)	234,897	0	0	0	0	0
Disbursements	(60,308)	(323,363)	(2,330,941)	0	(174,268)	0	(2,888,880)
Ending Balance (1998)	5,990,916	2,342,035	3,748,773	315	0	11,524,373	23,606,411
Receipts	762,517	68,602	2,133,736	7	203,664	3,218,192	6,386,717
Interfund Transfers	(136,686)	136,686	0	0	0	0	0
Disbursements	(31,931)	(272,854)	(2,334,114)	0	(203,664)	0	(2,842,563)
Ending Balance (1999)	6,584,815	2,274,468	3,548,395	322	0	14,742,565	27,150,564
Receipts	831,786	72,604	2,250,665	0	256,864	(757,674)	2,654,245
Interfund Transfers	(553,253)	553,366				(113)	(0)
Disbursements	(216,321)	(298,207)	(2,465,900)	0	(256,864)	0	(3,237,292)
Ending Balance (2000)	6,647,027	2,602,231	3,333,160	322	0	13,984,778	26,567,518
Receipts	836,160	79,890	2,098,406	0	284,375	(829,810)	2,469,020
Interfund Transfers	(621,574)	621,688	0	0	0	(114)	(0)
Disbursements	(156,127)	(387,333)	(2,648,776)	0	(284,375)	0	(3,476,610)
Ending Balance (2001)	\$6,705,486	\$2,916,476	\$2,782,790	\$322	\$0	\$13,154,854	\$25,559,927

Swampscott Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999	1998
Annuity Savings Fund:				
Members Deductions	\$634,018	\$585,220	\$554,985	\$526,840
Transfers from other Systems	70,649	113,818	67,500	110,088
Member Make Up Payments and Redeposits	11,091	4,139	11,028	5,552
Investment Income Credited to Member Accounts	<u>120,402</u>	<u>128,609</u>	<u>129,004</u>	<u>127,546</u>
Sub Total	<u>836,160</u>	<u>831,786</u>	<u>762,517</u>	<u>770,027</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>79,890</u>	<u>72,604</u>	<u>68,602</u>	<u>69,183</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	17,826	23,135	24,613	20,286
Received from Commonwealth for COLA and Survivor Benefits	148,179	381,555	336,796	237,870
Pension Fund Appropriation	<u>1,932,401</u>	<u>1,845,975</u>	<u>1,772,327</u>	<u>1,664,516</u>
Sub Total	<u>2,098,406</u>	<u>2,250,665</u>	<u>2,133,736</u>	<u>1,922,672</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>7</u>	<u>7</u>
Sub Total	<u>0</u>	<u>0</u>	<u>7</u>	<u>7</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>284,375</u>	<u>256,864</u>	<u>203,664</u>	<u>174,268</u>
Sub Total	<u>284,375</u>	<u>256,864</u>	<u>203,664</u>	<u>174,268</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	1,081	2,066	2,097	2,653
Excess Investment Income	<u>(830,891)</u>	<u>(759,740)</u>	<u>3,216,095</u>	<u>4,021,761</u>
Sub Total	<u>(829,810)</u>	<u>(757,674)</u>	<u>3,218,192</u>	<u>4,024,414</u>
TOTAL RECEIPTS	<u>\$2,469,020</u>	<u>\$2,654,245</u>	<u>\$6,386,717</u>	<u>\$6,960,571</u>

Swampscott Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
	2001	2000	1999	1998
Annuity Savings Fund:				
Refunds to Members	\$36,817	\$51,445	\$22,952	\$38,146
Transfers to other Systems	<u>119,309</u>	<u>164,876</u>	<u>8,979</u>	<u>22,162</u>
Sub Total	<u>156,127</u>	<u>216,321</u>	<u>31,931</u>	<u>60,308</u>
Annuity Reserve Fund:				
Annuities Paid	328,545	298,207	272,280	268,601
Option B Refunds	<u>58,788</u>	<u>0</u>	<u>574</u>	<u>54,762</u>
Sub Total	<u>387,333</u>	<u>298,207</u>	<u>272,854</u>	<u>323,363</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	1,554,098	1,393,388	1,311,186	1,291,466
Survivorship Payments	102,989	109,722	97,295	130,320
Ordinary Disability Payments	37,511	27,686	27,326	26,918
Accidental Disability Payments	647,571	591,311	600,347	611,691
Accidental Death Payments	170,564	184,403	191,029	171,101
Section 101 Benefits	31,666	19,337	19,053	0
3 (8) (c) Reimbursements to Other Systems	75,561	85,326	87,879	99,444
State Reimbursable COLA's Paid	26,804	54,508	0	0
Chapter 389 Beneficiary Increase Paid	<u>2,010</u>	<u>221</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,648,776</u>	<u>2,465,900</u>	<u>2,334,114</u>	<u>2,330,941</u>
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	41,224	42,841	40,299	41,488
Legal Expenses	7,128	9,297	12,322	10,256
Medical Expenses	0	0	0	0
Travel Expenses	9,879	5,410	4,080	1,801
Administrative Expenses	57,933	22,618	18,469	22,800
Furniture and Equipment	46,188	20,878	0	0
Management Fees	92,936	112,357	108,647	97,923
Custodial Fees	14,460	15,714	14,968	0
Consultant Fees	<u>14,625</u>	<u>27,750</u>	<u>4,878</u>	<u>0</u>
Sub Total	<u>284,375</u>	<u>256,864</u>	<u>203,664</u>	<u>174,268</u>
TOTAL DISBURSEMENTS	<u>\$3,476,610</u>	<u>\$3,237,292</u>	<u>\$2,842,563</u>	<u>\$2,888,880</u>

Swampscott Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999	1998
Investment Income Received From:				
Cash	27021.03	8766.26	\$13,266	\$10,081
Short Term Investments	86,115	112,117	63,331	46,644
Fixed Income	892,211	751,981	598,235	483,713
Equities	178,480	184,350	217,460	141,567
Pooled or Mutual Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>1,183,827</u>	<u>1,057,214</u>	<u>892,292</u>	<u>682,006</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	722	0
Realized Gains	467,412	2,315,362	2,854,331	944,757
Unrealized Gains	2,386,164	1,555,561	2,889,412	3,969,904
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>120,887</u>	<u>148,719</u>	<u>130,386</u>	<u>50,172</u>
Sub Total	<u>2,974,464</u>	<u>4,019,641</u>	<u>5,874,851</u>	<u>4,964,833</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	(11,841)	(52,505)
Paid Accrued Interest on Fixed Income Securities	(376,898)	(256,948)	(232,050)	(128,307)
Realized Loss	(2,644,845)	(2,579,445)	(1,762,618)	(461,068)
Unrealized Loss	(1,334,053)	(2,411,738)	(1,093,090)	(561,999)
Custodial Fees Paid	-	-	-	-
Consultant Fees Paid	-	-	-	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(148,719)</u>	<u>(130,386)</u>	<u>(50,172)</u>	<u>(50,195)</u>
Sub Total	<u>(4,504,515)</u>	<u>(5,378,518)</u>	<u>(3,149,772)</u>	<u>(1,254,074)</u>
NET INVESTMENT INCOME	<u>(346,224)</u>	<u>(301,663)</u>	<u>3,617,372</u>	<u>4,392,765</u>
Income Required:				
Annuity Savings Fund	120,402	128,609	129,004	127,546
Annuity Reserve Fund	79,890	72,604	68,602	69,183
Military Service Fund	0	0	7	7
Expense Fund	<u>284,375</u>	<u>256,864</u>	<u>203,664</u>	<u>174,268</u>
TOTAL INCOME REQUIRED	<u>484,667</u>	<u>458,077</u>	<u>401,276</u>	<u>371,004</u>
Net Investment Income	<u>(346,224)</u>	<u>(301,663)</u>	<u>3,617,372</u>	<u>4,392,765</u>
Less: Total Income Required	<u>484,667</u>	<u>458,077</u>	<u>401,276</u>	<u>371,004</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$830,891)</u>	<u>(\$759,740)</u>	<u>\$3,216,095</u>	<u>\$4,021,761</u>

Swampscott Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,006,493	3.62%
Short Term	858,527	3.08%
Fixed Income	11,780,001	42.32%
Equities	11,392,816	40.93%
Pooled Short Term Funds		0.00%
Pooled Domestic Equity Funds		0.00%
Pooled International Equity Funds	1,399,303	5.03%
Pooled Global Equity Funds		0.00%
Pooled Domestic Fixed Income Funds		0.00%
Pooled International Fixed Income Funds		0.00%
Pooled Global Fixed Income Funds		0.00%
Pooled Alternative Investment Funds		0.00%
Pooled Real Estate Funds	1,400,000	5.03%
Pooled Domestic Balanced Funds		0.00%
Pooled International Balanced Funds		0.00%
PRIT Cash Fund		0.00%
PRIT Core Fund		0.00%
GRAND TOTALS	<u>\$27,837,139</u>	<u>100.00%</u>

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2001**, the rate of return for the investments of the **Swampscott** Retirement System was -0.87%. For the five year period ending December 31, **2001**, the rate of return for the investments of the **Swampscott** Retirement System averaged 11.81%. For the 17-year period ending December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Swampscott** Retirement System was 11.41%.

Swampscott Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

The **Swampscott** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

July 26, 2000

PERAC received your Board's response to PERAC Memo #44/1999 regarding Supplemental Investment Regulations. In accordance with your decision, self-imposed restrictions on your Board's percentage of holdings in specific asset classes have been rescinded. Your board must, however, make asset allocation decisions subject to your fiduciary duty.

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Swampscott** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Swampscott** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 6, 1995

MEMBERSHIP

Every employee who becomes a member of the Swampscott Retirement System must complete the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment he/she must also furnish the Board with a birth certificate, and if a veteran, a copy of his/her Discharge of Military Service or equivalent which shall be kept on file with the board. Full-time permanent employees who work at least 30 hours per week and are under age 65 must join the Retirement System as of the date of their employment.

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

MEMBERSHIP (Continued)

Part-time permanent employees who work at least 20 but less than 30 hours per week and are under the age of 65 must join the retirement system as of their date of employment. Elected officials who receive compensation may join the Retirement System within ninety (90) days after the date of assuming office, if under age 65 on the date of election. (Note: this supplementary rule was modified slightly from the form submitted to comply with the requirements of G.L. c. 32, s. 3 (2)(vi)) Temporary employees, employees who are normally scheduled to work less than 20 hours per week are not eligible for membership in the retirement system. The Retirement board shall have full jurisdiction to determine the eligibility of employees for membership involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment of service.

CREDITABLE SERVICE:

Full-time permanent employees will receive full credit except in instances where full-time employees also had part-time service. Any part-time employee, who qualified for membership, shall receive one (1) year of creditable service provided they work the hours required for their position and provided their entire service is on a part-time basis. Subject to verification as specified by the agency any part-time employee who becomes full-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position. Subject to verification as specified by the agency any full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position. Members who work at least seven continuous months per year will be credited with one year of service for each year worked provided they work the hours required by their position and provided their entire service is on the same basis. The Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Swampscott governmental employees who were ineligible at the time of their employment in the Swampscott Retirement System.

BUY BACKS:

Members seeking to buy back time must submit, in writing, dates and places of previous employment. The Retirement Board will request all pertinent information from the appropriate agencies. A member of the Swampscott Retirement System shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted based upon the actual service rendered. (repealed June 20, 1995)

CHANGES IN EMPLOYEE STATUS:

Member's agencies must notify the Retirement board within 90 days of any changes in employee status including workers' compensation, position held and hours in work week. (Note: G.L. c. 32, s. 3(2)(g) requires department heads to notify the board within 30 days of any change in the title, address, rate of compensation, duties or service of any employee in the department.)

INJURIES:

All major injuries incurred due to employment must be reported in writing to the Swampscott Retirement Board within 90 days of the accident.

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

June 20, 1995

A member of the Swampscott Retirement System shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted upon the actual service rendered.

December 17, 1996

An eligible member may not receive additional creditable service until the member has paid into the annuity savings fund of the retirement system "in one lump sum or in installments" the amount required by chapter 71 of the acts of 1996. This allows the member to choose his/her own method or option of payment, thereby eliminating payroll deduction. The total veterans' buyback payment would be payable in full prior to the member's effective date of retirement.

May 20, 1998

"In making determination whether a cost-of-living adjustment should be granted in any particular year and whether said cost-of living adjustment would substantially impair the funding schedule of the Swampscott Retirement System, the Swampscott Retirement Board hereby adopts the following guidelines:

1. A cost-of-living adjustment for eligible retirees and beneficiaries shall not be granted unless the average rate of return on the Swampscott Retirement System's investments for the three-year period immediately preceding the current calendar year is at least 8%.
2. Any cost of living adjustment will be an amount equal to the Consumer Price Index as calculated by PERAC or 3% whichever is less.
3. The Swampscott Retirement Board is under no obligation to grant cost-of-living adjustment in any particular year."

May 21, 1998

Any employee of the Town of Swampscott who served as a auxiliary or special police officer in any governmental unit or political subdivision of the Commonwealth prior to becoming a member of the Swampscott Retirement System shall be considered a temporary employee as set forth in G.L. c.32, s. 4(2) (c) and may receive credit for actual service rendered in this capacity, based on the actual compensation received while rendering such service and upon making payment to the System, with interest, prior to the member's actual retirement.

January 8, 2002

TRAVEL REGULATION

Supplementary travel regulations were approved for The Swampscott Retirement Board.

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: David Castellarin

Appointed Member: Thomas H. Driscoll, Jr. Term Expires: 6/30/04

Elected Member: John F. Behen, Jr. Term Expires: 12/19/05

Elected Member: Christopher Thomson Term Expires: 8/11/04

Appointed Member: John T. Kiely, Jr. Term Expires: 1/07/04

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	National Union Fire Insurance Co.
Elected Member:)	\$1,000,000
Appointed Member:)	
Staff Employee:)	

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **The Segal Group, Inc.** as of **January 1, 2002.**

The actuarial liability for active members was	\$21,447,061
The actuarial liability for vested terminated members was	462,557
The actuarial liability for retired members was	<u>25,932,383</u>
The total actuarial liability was	47,842,001
System assets (actuarial value) as of that date were	<u>29,429,260</u>
The unfunded actuarial liability was	<u>\$18,412,741</u>
 The ratio of system's assets to total actuarial liability was	 61.5%
As of that date the total covered employee payroll was	\$8,337,379

The normal cost for employees on that date was 7.79% of payroll

The normal cost for the employer including admin. exp. was 10.43% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	29,429,260	47,842,001	18,412,741	61.5%	8,337,379	220.85%
1/1/2001	27,150,564	40,926,782	13,776,218	66.3%	7,516,008	183.29%
1/1/1998	16,938,035	36,193,389	19,255,354	46.8%	6,318,850	304.73%
1/1/1996	15,208,683	29,272,257	14,063,574	52.0%	6,481,290	216.99%

Swampscott Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	**	**	0	5	12	7	5	3	13	10
Ordinary Disability	**	**	1	0	1	0	0	0	0	0
Accidental Disability	**	**	0	0	1	0	0	0	1	1
Total Retirements	0	0	1	5	14	7	5	3	14	11
Total Retirees, Beneficiaries and Survivors	**	199	195	196	211	213	213	207	213	227
Total Active Members	**	273	253	279	269	267	269	292	274	264
Pension Payments										
Superannuation	\$1,797,986	\$1,915,148	\$1,823,378	\$1,101,614	\$1,095,605	\$1,252,495	\$1,291,466	\$1,311,186	\$1,393,388	\$1,554,098
Survivor/Beneficiary Payments	*	*	*	*	95,646	93,095	130,320	97,295	109,722	102,989
Ordinary Disability	*	*	*	*	34,773	28,075	26,918	27,326	27,686	37,511
Accidental Disability	*	*	*	581,410	559,564	631,214	611,691	600,347	591,311	647,571
Other	<u>12,063</u>	<u>94,283</u>	<u>133,343</u>	<u>252,697</u>	<u>274,839</u>	<u>296,298</u>	<u>270,544</u>	<u>297,960</u>	<u>343,794</u>	<u>306,606</u>
Total Payments for Year	<u>\$1,810,049</u>	<u>\$2,009,431</u>	<u>\$1,956,721</u>	<u>\$1,935,721</u>	<u>\$2,060,427</u>	<u>\$2,301,177</u>	<u>\$2,330,940</u>	<u>\$2,334,114</u>	<u>\$2,465,900</u>	<u>\$2,648,776</u>

Note: ** Data not available

* Included in superannuation